HANCOCK COUNTY HEALTH SYSTEM

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2020 AND 2019

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HANCOCK COUNTY HEALTH SYSTEM
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS

Name	Title	Term Expires
	Board of Trustees	
Mary Kopacek	Chairperson	December 31, 2022
Rob Willms	Vice-Chairperson/Treasurer	December 31, 2022
Bill Paulus	Secretary	December 31, 2022
Dorothy Denny	Member	December 31, 2020
DeAnna Kelly	Member	December 31, 2020
Ron Eden	Member	December 31, 2022
Ellen Tusha	Member	December 31, 2022
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	Health System Officials	
Laura Zwiefel	Chief Executive Officer/Chief Nursing Officer	
Julie Damm	Chief Financial Officer	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hancock County Health System
Britt, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Hancock County Health System (Health System), which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Health System as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10, Budgetary Comparison, Schedule of the Health System's Proportionate Share of Net Pension Liability, Schedule of the Health System's Contributions, and related notes on pages 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Hancock County Health System as a whole. The other supplementary information on pages 48 through 56 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The table of the board of trustees and health system officials, schedules of patient receivables, allowance for doubtful accounts, and collection statistics, and schedule of comparative statistics have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2021, on our consideration of Hancock County Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hancock County Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock County Health System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
January 18, 2021

This discussion and analysis of the financial performance of Hancock County Health System (Health System) provides an overall review of the Health System's financial activities and balances as of and for the years ended June 30, 2020, 2019, and 2018. The intent of this discussion is to provide further information on the Health System's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health System's financial statements, including the notes thereto, to enhance their understanding of the Health System's financial status.

Overview of the Financial Statements

The financial statements are composed of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health System's finances.

The Health System's financial statements offer short and long-term information about its activities. The statements of net position include all of the Health System's assets, deferred outflows, liabilities and deferred inflows, as well as the Hancock County Health System Foundation's net position, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health System creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health System's operations over the past year and can be used to determine whether the Health System has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The statements of net position and statement of revenues, expenses, and changes in net position report the net position of the Health System and Foundation and the changes in them. The Health System's net position — the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources — is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health System's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The statement of net position at June 30, 2020, indicates total assets of $48,109,528 total deferred outflows of $1,840,234, total liabilities of $29,641,470, deferred inflows of $2,685,805, and net position of $17,622,487.

Financial Highlights (Continued)

- The statements of revenues, expenses, and changes in net position indicates total net patient service revenue of $22,421,860, an increase of 2.81% over the previous fiscal year, total operating expenses of $25,302,989 an increase of 2.40%, resulting in a loss from operations of $1,072,844. Net nonoperating revenues of $1,582,233 brings the excess of revenues over expenses to $509,389.

- The Health System's current assets exceeded its current liabilities by $11,369,078 at June 30, 2020, providing a 1.81 current ratio.

- Total patient days for the year ended June 30, 2020 amount to:

    - 473 - Acute Care (includes Hospice) (22.71% decrease from the prior year)
    - 2,268 - Swing-bed and Swing-bed Self Pay (17.57% increase from the prior year)
    - 20,149 - Outpatient Visits (8.72% decrease from the prior year)
    - 22,691 - Physician Clinic Visits (4.51% decrease from the prior year)

Health System Highlights

The Health System continued to make many positive changes over this last fiscal year, including:

- Added the following providers: Mahala Phillips, ARNP, Weight Management Services, Clinics; Jillian Carpenter, Licensed Master Social Worker, Senior Life Solutions Therapist; Kristina Schupe, Licensed Speech Pathologist became an employee, previously had served HCHS patients as a contracted therapist.

- Shannon Mobley, D.O. will be joining HCHS in October 2020, as a Family Medicine and Occupational Health Physician in the Britt Medical Clinic.

- Expanded several services including: Ashley Shelanski, LMHC, received special training and began offering an alternative behavioral health therapy, Eye Movement Desensitization and Reprocessing (EMDR) for treating post-traumatic stress disorder (PTSD); Mark Hong, MD, an internal medicine hospitalist at HCHS, began providing nephrology clinic services.

- COVID-19 Pandemic: Much of calendar year 2020 has been spent on providing health care amidst the threat of the COVID-19 Pandemic. HCHS staff and providers have responded to the Pandemic by being community leaders, supporters, educators, and health care providers. Services have been provided, or in some cases temporarily paused, following regulatory requirements and recommendations to assure the safe provision of care.

Health System Highlights (Continued)

- Master Facility Planning was first initiated in May 2017. In November 2018, the Board approved moving forward with bidding the project and secured a $6.433 million-dollar USDA loan to fund most of the renovation. HCHS did receive a zero percent interest loan for 10 years for $1 million through Prairie Energy/Corn Belt Power. The total project is budgeted for $8.4 million. Project construction started in July 2019. Two of the four phases were completed in FY2020. The Surgical Services Department celebrated its completion with a public open house, in February 2020. HCHS's newly remodeled lab, atrium, front canopy, heated sidewalks, drive-through lane, and vestibule have also been completed. Work now has moved to focus on the Phase 3 Emergency Department expansion. The Project is projected to be completed February 2021.

- Strategic Planning for 2021-2023 began in the summer of 2019. HCHS's Strategic Planning's foundation was solid because the involvement of all levels of staff, including our Medical Staff, Board Members and Leader Team. Their ownership and accountability in the process led credence to the direction of our organization. From our focus groups, we developed the top five tactics for our six pre-determined Key Metrics.

- HCHS's Sleep Study Services earned re-accreditation by the Accreditation Commission for Health Care (ACHC). This three-year re-certification ensures that HCHS's Sleep Program, including Home Sleep Testing and Sleep Lab/Center Services, meets all required standards set forth by the ACHC.

- HCHS's Emergency Department received its reverification as a Level IV Trauma Center. Being a Level IV Trauma Center means that HCHS's Emergency Department is fully equipped, including having 24-hour laboratory services, to handle emergency medicine protocols and a knowledgeable medical team readily available when the patient arrives.

Condensed Financial Statements

Table 1: Statements of Net Position

	2020	2019	2018
Assets:			
Current Assets	$ 25,349,232	$ 18,514,918	$ 17,226,200
Noncurrent Cash and Investments	4,427,256	2,908,050	3,249,407
Capital Assets, Net	17,334,203	12,888,740	13,634,231
Other Assets	998,837	1,062,233	1,014,232
Total Assets	48,109,528	35,373,941	35,124,070
Deferred Outflows of Resources:			
Pension Related Deferred Outflows	1,840,234	2,187,435	2,463,012
Total Assets and Deferred Outflows of Resources	$ 49,949,762	$ 37,561,376	$ 37,587,082
Liabilities:			
Total Current Liabilities	$ 13,980,154	$ 2,464,580	$ 2,623,905
Net Pension Liability	6,329,004	6,708,551	6,797,960
Long-Term Debt, Less Current Maturities	9,332,312	9,142,095	9,490,000
Total Liabilities	29,641,470	18,315,226	18,911,865
Deferred Inflows of Resources:			
Succeeding Year Property Tax Receivable	1,585,172	1,558,964	1,522,908
Deferred Grant Revenue	-	31,460	65,102
Pension Related Deferred Inflows	1,100,633	565,341	428,797
Total Deferred Inflows of Resources	2,685,805	2,155,765	2,016,807
Net Position:			
Invested in Capital Assets Net of Related Debt	2,699,724	2,908,436	3,451,964
Restricted:			
Expendable Under Bond Agreement	1,333,069	1,462,046	1,352,087
Expendable Foundation Fund	751,733	734,158	699,594
Expendable Under 28e Agreement	342,479	194,496	181,821
By Donor	132,076	56,906	25,774
Unrestricted	12,363,406	11,734,343	10,947,170
Total Net Position	17,622,487	17,090,385	16,658,410
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 49,949,762	$ 37,561,376	$ 37,587,082

Condensed Financial Statements (Continued)

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating Revenue:			
Net Patient Service Revenues	$ 22,422,012	$ 21,809,963	$ 21,688,790
Other Operating Revenue	1,808,133	1,719,776	1,463,315
Total Operating Revenue	24,230,145	23,529,739	23,152,105
Operating Expenses:			
Salaries and Wages	9,156,098	8,785,893	8,223,616
Employee Benefits	3,085,793	2,819,021	2,769,122
Supplies and Other	10,398,378	10,347,413	10,458,404
Depreciation	1,892,759	1,943,915	2,665,557
Interest and Amortization	769,961	812,548	785,100
Total Operating Expenses	25,302,989	24,708,790	24,901,799
Operating Loss	(1,072,844)	(1,179,051)	(1,749,694)
Nonoperating Revenue (Expense):			
County Tax Revenue	1,313,925	1,302,609	1,298,883
Interest Income	81,823	79,314	64,778
Rental Income, Net	40,741	39,799	36,252
Contributions	16,216	28,690	(33)
Loss on Disposal of Capital Assets	5,309	2,585	1,400
Stimulus (PRF) Revenue	124,219	93,833	148,831
Nonoperating Revenue (Expense), Net	1,582,233	1,546,830	1,550,111
Excess (Deficit) of Revenues over Expenses Before Capital Grants and Contributions	509,389	367,779	(199,583)
Capital Grants and Contributions	22,713	64,196	45,593
Increase (Decrease) in Net Position	532,102	431,975	(153,990)
Net Position - Beginning of Year	17,090,385	16,658,410	16,812,400
Net Position - End of Year	$ 17,622,487	$ 17,090,385	$ 16,658,410

Long-Term Debt

Hancock County Health System had $6,914,409 and $9,332,312 in short-term and long-term debt, respectively, for the year ended June 30, 2020, and $838,209 and $9,142,095 in short-term and long-term debt, respectively, for the year ended June 30, 2019. The debt was incurred to renovate the first floor in 1997, the GMC clinic in 2000, the 2nd floor in 2003, the Digital Mammography unit in 2010, and the building and remodeling project. In 2014, additional debt was incurred due to a lease agreement entered into. In 2019, the Health System entered into a new capital lease for a CT scanner and issued new debt to help fund costs for an emergency and surgery remodeling project. More was drawn on these remodeling project loans in 2020. Upon completion of the remodeling project, the interim short-term construction loan is anticipated to be refinanced with longer-term USDA debt. Also in 2020, new debt was incurred through the Paycheck Protection Program as part of the CARES Act that was in response to the COVID-19 pandemic.

Economic and Other Factors and Next Year's Budget

The Health System's Board and management considered many factors when preparing the fiscal year 2021 budget. Of primary consideration in the 2021 budget are the unknowns of health care reform and the continued difficulty in the status of the economy. Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts due to uninsured and under-insured with higher deductible plans
- Patient safety initiatives
- Salary and benefit costs
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staffing
- Lower return on investment

Hancock County Health System has seen a significant increase in deductions from revenue due to fixed reimbursement payor sources such as Medicare, Medicaid, and commercial insurance. In response, management continues to look at operational improvements. These include revenue enhancement and cost containment strategies.

Summary

The Health System's Board of Trustees and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment, and support each of our 193 employees provides to every person they serve. We would also like to thank each member of the Health System's Medical Staff for their dedication and support provided.

Contacting the Health System's Finance Department

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Hancock County Health System
Attn: CEO
532 1st ST NW
Britt, Iowa 50423

HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 20,246,078	$ 11,908,404
Patient Receivables, Less Allowance for Uncollectible Accounts of $592,827 in 2020 and $581,561 in 2019	2,795,461	3,464,558
Other Receivables	281,591	254,197
Estimated Third-Party Payor Settlements	-	828,547
Tax Receivable, Succeeding Year Property Tax	1,585,172	1,558,964
Inventories	344,024	299,854
Prepaid Expenses	96,906	200,394
Total Current Assets	25,349,232	18,514,918
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	1,999,975	517,350
Restricted Under Bond Agreement	1,333,069	1,462,046
Restricted Foundation Fund	751,733	734,158
Restricted by 28e Agreement for Ambulance	342,479	194,496
Total Noncurrent Cash and Investments	4,427,256	2,908,050
CAPITAL ASSETS, NET	17,334,203	12,888,740
OTHER ASSETS		
Real Estate Held for Investment	927,535	927,535
Physician Recruitment and Tuition Fees, Net	71,302	134,698
Total Other Assets	998,837	1,062,233
Total Assets	48,109,528	35,373,941
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	1,840,234	2,187,435
Total Assets and Deferred Outflows of Resources	$ 49,949,762	$ 37,561,376

See accompanying Notes to Financial Statements.

HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2020 AND 2019

	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 6,914,409	$ 838,209
Accounts Payable:		
Trade	366,395	458,521
Construction	382,758	-
Due to Affiliated Organization	523,303	397,850
Accrued Expenses:		
Salaries, Wages, and Vacation	639,747	604,464
Interest	59,748	63,598
Payroll Taxes and Other	129,774	101,938
Estimated Third-Party Payor Settlements	743,229	-
Unearned Grant Revenue	4,220,791	-
Total Current Liabilities	13,980,154	2,464,580
NET PENSION LIABILITY	6,329,004	6,708,551
LONG-TERM DEBT	9,332,312	9,142,095
Total Liabilities	29,641,470	18,315,226
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	1,585,172	1,558,964
Deferred Grant Revenue	-	31,460
Pension Related Deferred Inflows	1,100,633	565,341
Total Deferred Inflows of Resources	2,685,805	2,155,765
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	2,699,724	2,908,436
Restricted:		
Expendable Under Bond Agreement	1,333,069	1,462,046
Expendable Foundation Fund	751,733	734,158
Expendable Under 28e Agreement	342,479	194,496
By Donor	132,076	56,906
Unrestricted	12,363,406	11,734,343
Total Net Position	17,622,487	17,090,385
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 49,949,762	$ 37,561,376

HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Net Patient Service Revenues (Net of Contractual Allowances and Discounts and Provisions for Uncollectible Accounts)	$ 22,422,012	$ 21,809,963
Other Revenue	1,808,133	1,719,776
Total Operating Revenues	24,230,145	23,529,739
OPERATING EXPENSES		
Salaries and Wages	9,156,098	8,785,893
Employee Benefits	3,085,793	2,819,021
Supplies and Other	10,398,378	10,347,413
Depreciation	1,892,759	1,943,915
Interest and Amortization	769,961	812,548
Total Operating Expenses	25,302,989	24,708,790
OPERATING LOSS	(1,072,844)	(1,179,051)
NONOPERATING REVENUE (EXPENSES)		
County Tax Revenue	1,313,925	1,302,609
Investment Income	81,823	79,314
Rental Income, Net	40,741	39,799
Foundation Contribution Revenue, Net of Fundraising Expenses	16,216	28,690
Gain on Disposal of Capital Assets	5,309	2,585
Noncapital Grants and Contributions	124,219	93,833
Nonoperating Revenue (Expenses), Net	1,582,233	1,546,830
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	509,389	367,779
Capital Grants and Contributions	22,713	64,196
INCREASE IN NET POSITION	532,102	431,975
Net Position - Beginning of Year	17,090,385	16,658,410
NET POSITION - END OF YEAR	$ 17,622,487	$ 17,090,385

See accompanying Notes to Financial Statements.

HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of Patient Service Revenue	$ 24,662,885	$ 20,377,682
Payments of Salaries and Wages	(11,675,826)	(11,273,676)
Payments of Supplies and Other Expenses	(10,242,337)	(10,516,865)
Other Receipts and Payments, Net	1,749,279	1,767,943
Net Cash Provided by Operating Activities	4,494,001	355,084
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Contributions Received, Net of Related Fundraising	4,361,226	122,523
County Tax Revenue Received	1,313,925	1,302,609
Rental Income, Net	40,741	39,799
Net Cash Provided by Noncapital Financing Activities	5,715,892	1,464,931
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(5,962,330)	(735,594)
Proceeds from the Sale of Property and Equipment	12,175	2,585
Proceeds from Issuance of Long-Term Debt	7,055,810	100,002
Principal Payments on Long-Term Debt	(789,393)	(764,795)
Interest Payments on Long-Term Debt	(773,811)	(816,007)
Capital Contributions and Grants	22,713	64,196
Net Cash Used by Capital and Related Financing Activities	(434,836)	(2,149,613)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(1,519,206)	341,357
Interest Earned on Investments	81,823	79,314
Net Cash Provided (Used) by Investing Activities	(1,437,383)	420,671
INCREASE IN CASH AND CASH EQUIVALENTS	8,337,674	91,073
Cash and Cash Equivalents - Beginning of Year	11,908,404	11,817,331
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 20,246,078	$ 11,908,404

See accompanying Notes to Financial Statements.

HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (1,072,844)	$ (1,179,051)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,892,759	1,943,915
Interest Expense Considered Capital and Related Financing Activity	769,961	812,548
Provision for Uncollectible Accounts	1,129,401	1,002,977
Changes in Assets and Liabilities:		
Patient Receivables	(460,304)	(1,340,524)
Other Receivables	(27,394)	81,809
Inventories	(44,170)	(6,236)
Prepaid Expenses	103,488	(71,068)
Other Assets	63,396	(48,001)
Pension Related Deferred Outflows	347,201	275,577
Accounts Payable - Trade and Related Party	33,327	(44,147)
Accrued Expenses and Deferred Revenue	31,659	(25,116)
Estimated Third-Party Payor Settlements	1,571,776	(1,094,734)
Pension Related Deferred Inflows	535,292	136,544
Net Pension Liability	(379,547)	(89,409)
Net Cash Provided by Operating Activities	$ 4,494,001	$ 355,085
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION NONCASH FINANCING ACTIVITIES		
Additions to Property and Equipment Included in Accounts Payable	$ 382,758	$ -
Assets Acquired Under Capital Lease Agreement	$ -	$ 462,830

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hancock County Health System (Health System) is the county hospital of Hancock County, located in the city of Britt, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health System provides health care services under the name of Hancock County Health System in accordance with a Master Affiliation Agreement (see Note 13). Services are provided primarily to residents of Hancock County and the surrounding counties in north central Iowa. The Health System also runs clinics in Garner, Britt, Kanawha, and Wesley.

Hancock County Health System Foundation was formed for the benefit of the Health System and is organized as an Iowa nonprofit corporation and is exempt from the federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

Reporting Entity

For financial reporting purposes, Hancock County Health System has included all funds, organizations, agencies, boards, commissions, and authorities. The Health System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health System are such that exclusion would cause the Health System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Health System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health System. Hancock County Health System Foundation meets these criteria and is included in the Health System's financial statements. Hancock County Health System has no other component units which meet the GASB criteria.

Basis of Presentation

The statements of net position display the Health System's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health System.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net positions are available for use, generally it is the Health System's policy to use restricted net position first.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Health System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Health System has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Tax-Exempt Status

The Foundation is an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under IRC Section 501(c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, excluding assets limited as to use or restricted and investments.

Patient Receivables

Patient receivables are reduced by an allowance for doubtful accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. In evaluating the collectability of patient accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time.

At June 30, 2020 and 2019, the allowance for doubtful accounts for self-pay patients was approximately $593,000 and $582,000, respectively. The Health System's allowance for doubtful accounts for self-pay patients increased with 60% of self-pay accounts receivable at June 30, 2020, compared to 56% at June 30, 2019. The increase is due primarily to a growth in self-pay balances over 90 days which grew from approximately $583,000 at June 30, 2019, to $639,000 at June 30, 2020. The Health System's self-pay write-offs increased approximately $315,000 from approximately $1,218,000 for fiscal year 2019 to approximately $1,533,000 for fiscal year 2020. The Health System has not materially changed its charity care or uninsured discount policies during fiscal years 2019 or 2020. The Health System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the board of trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the board of trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Inventories

Inventories are valued at historical cost using the first-in, first-out (FIFO) method.

Capital Assets

Capital asset acquisitions of $5,000 or greater are capitalized and are recorded at cost. Capital assets donated for Health System's operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land Improvements	10 to 40 Years
Buildings and Improvements	10 to 50 Years
Equipment	3 to 20 Years

Noncurrent Cash and Investments

Noncurrent cash and investments include assets set aside by the board of trustees for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes; restricted foundation funds, which can be used at the discretion of the foundation, assets which are restricted by bond agreements, and funds that are restricted by the 28e ambulance agreement. Noncurrent cash and investments that are available for obligations classified as current liabilities are reported in current assets.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health System for its stated purposes. Resources set aside for board-designated purposes are not considered to be restricted. Contributions are reported in nonoperating revenue. Grants restricted for specific operating purposes are reported as other operating revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Health System employees accumulate a limited amount of earned but unused paid time-off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time-off payouts is recorded as a current liability on the statements of net position, based on pay rates that are in effect at June 30, 2020 and 2019.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value after the measurement date but before the end of the Health System's reporting period.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future year(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Health System after the measurement date but before the end of the Health System's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statements of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, deferred grant revenue, and unrecognized items that are not yet charged to pension expense.

Operating Revenues and Expenses

The Health System's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services — the Health System's principal activity. Nonexchange revenues, including interest income, taxes, grants, rental income, losses on disposal of assets, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grant proceeds received where all eligibility requirements have not yet been met are presented as unearned grant revenue in the statements of net position.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health System incurred $66,072 and $72,872 for advertising costs for the years ended June 30, 2020 and 2019, respectively.

Charity Care

To fulfill its mission of community service, the Health System provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Health System does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Electronic Health Record Incentive Payments

As discussed in Note 6, the Health System received funds under the Electronic Health Records (EHR) Incentive Program during 2012, 2016, 2017, 2018, and 2019. The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health System will meet all meaningful use objectives and any other specific grant requirements that are applicable, *e.g.*, electronic transmission of quality measures to CMS in the second and subsequent payment years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain items in the 2020 financial statements were reclassified for comparison purposes with the 2019 financial statements. The reclassifications did not result in a change in net position as previously reported.

NOTE 2 DESIGNATED POSITION

Of the $12,363,406 and $11,734,343 of unrestricted net position at June 30, 2020 and 2019, respectively, the board of trustees has designated $1,999,975 and $517,350, respectively, for the acquisition of capital assets. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 CHARITY CARE AND COMMUNITY BENEFITS

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were $67,302 and $107,197 for the years ended June 30, 2020 and 2019, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2020 and 2019 were approximately $36,000 and $55,000, respectively.

In addition, the Health System provides services to other medically indigent patients under certain government reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Health System also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

NOTE 4 NET PATIENT SERVICE REVENUE

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health System is licensed as a Critical Access Hospital (CAH). The Health System is reimbursed for most inpatient and outpatient services at allowable cost plus 1%, less 2% for Medicare sequestration, with final settlement determined after submission of annual cost reports by the Health System and is subject to audits thereof by the Medicare fiscal intermediary. As a result of COVID relief legislation, a temporary moratorium on Medicare sequestration was enacted effective May 1, 2020 through December 31, 2020, and subsequently further extended through March 31, 2021. The Health System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2018.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2017.

Effective April 1, 2016, Iowa Medicaid transitioned to three managed care organizations (MCO): United Healthcare, Amerigroup, and Amerihealth Caritas. During fiscal year 2018 Amerihealth Caritas dropped out of the plan and is no longer participating. The Health System is a participating provider with both organizations during fiscal year 2019 and 2018. Effective July 1, 2019, United Healthcare is no longer a participating managed care organization, while Iowa Total Care has entered the plan. The Health System is contracted with Iowa Total Care.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge using APR-DRGs. Outpatient services are reimbursed on a prospective basis based on groups of services called EAPGs.

Other Payors

The Health System has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health System under these agreements may include prospectively determined rates and discounts from established charges.

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

Uninsured Patients

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows:

	2020	2019
Patient Service Revenue (Net of Contractual Allowances and Discounts) from:		
Third-Party Payors	$ 22,577,771	$ 21,656,090
Uninsured Patients	973,642	1,156,850
Total	23,551,413	22,812,940
Provision for Uncollectible Accounts	(1,129,401)	(1,002,977)
Net Patient Service Revenue Less Provision for Uncollectible Accounts	$ 22,422,012	$ 21,809,963

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For the year ended June 30, 2020, the Health System recognized a reduction of net patient service revenue of approximately $16,000 due to changes in prior year estimates resulting from settled reports.

A summary of patient service revenue, contractual adjustments, and provision for uncollectible accounts for the years ended June 30 is as follows:

	2020	2019
Gross Patient Service Revenue	$ 45,148,091	$ 44,752,445
Revenue Adjustments:		
Medicare	(11,355,925)	(11,623,660)
Medicaid	(3,516,466)	(3,456,735)
Other	(6,724,287)	(6,859,110)
Provision for Uncollectible Accounts	(1,129,401)	(1,002,977)
Total Contractual Adjustments and Uncollectible Accounts	(22,726,079)	(22,942,482)
Net Patient Service Revenue	$ 22,422,012	$ 21,809,963

NOTE 5 PATIENT RECEIVABLES

Patient receivables reports as current assets by the Health System at June 30 consisted of the following:

	2020	2019
Receivable from Patients and Their Insurance Carriers	$ 1,799,857	$ 2,391,685
Receivable from Medicare	1,090,856	1,187,605
Receivable from Medicaid	497,575	466,829
Total Patient Receivables	3,388,288	4,046,119
Less: Allowance for Doubtful Accounts	(592,827)	(581,561)
Patient Receivables, Net	$ 2,795,461	$ 3,464,558

NOTE 6 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health System continuing to meet the escalating meaningful use criteria. For the first payment year, the Health System must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health System must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four-year period.

For hospitals that did not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by one-fourth, one-half, and three-fourths.

The Health System demonstrated meaningful use to the 90-day period ended August 31, 2011 and received notice of their first tentative incentive payment during the year ended June 2012. In 2016, the Health System completed their EHR project and was awarded $51,022 for the year ended June 30, 2019, respectively, which is included in other operating revenue. There were no payments received for the year ended June 30, 2020, as fiscal year 2019 was the final year of payment.

NOTE 7 DEPOSITS AND INVESTMENTS

The Health System's deposits in banks at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

NOTE 7 DEPOSITS AND INVESTMENTS (CONTINUED)

The Health System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the board of trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note and are recorded at cost.

At June 30, 2020 and 2019, the Health System's and Foundation's carrying amounts of deposits and investments are as follows:

	2020	2019
Checking and Savings Accounts	$ 20,774,205	$ 12,269,546
Certificates of Deposit	243,491	756,437
Money Market Accounts	1,338,861	1,471,925
Mutual Funds and Corporate Bonds	317,842	318,546
Total Deposits	$ 22,674,399	$ 14,816,454

Included in the following statements of net position captions:

	2020	2019
Checking and Savings Accounts	$ 20,774,205	$ 12,269,546
Certificates of Deposit	243,491	756,437
Money Market Accounts	1,338,861	1,471,925
Mutual Funds and Corporate Bonds	317,842	318,546
Total Deposits	$ 22,674,399	$ 14,816,454

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health System are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Health System's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health System.

The Health System attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

NOTE 8 CAPITAL ASSETS

Summaries of capital assets at June 30 are as follows:

	June 30, 2019	Additions	(Retirements)	Transfers	June 30, 2020
Capital Assets Not Being Depreciated					
Land	$ 89,562	$ -	$ -	$ -	$ 89,562
Construction in Progress	522,633	6,005,617	-	(4,100,374)	2,427,876
Total Capital Assets Not Being Depreciated	612,195	6,005,617	-	(4,100,374)	2,517,438
Capital Assets Being Depreciated					
Land Improvements	504,986	18,800	(2,180)	35,496	557,102
Building	12,085,984	18,645	-	1,224,275	13,328,904
Fixed Equipment	10,368,783	7,937	-	1,967,645	12,344,365
Major Movable Equipment	11,582,528	294,089	(163,369)	872,958	12,586,206
Total Capital Assets Being Depreciated	34,542,281	339,471	(165,549)	4,100,374	38,816,577
Accumulated Depreciation:					
Land Improvements	411,125	11,970	(2,179)	-	420,916
Building	7,100,334	552,375	-	-	7,652,709
Fixed Equipment	5,630,136	602,740	-	-	6,232,876
Major Movable Equipment	9,124,141	725,674	(156,504)	-	9,693,311
Total Accumulated Depreciation	22,265,736	1,892,759	(158,683)	-	23,999,812
Total Capital Assets Being Depreciated, Net	12,276,545	(1,553,288)	(6,866)	4,100,374	14,816,765
Total Capital Assets, Net	$ 12,888,740	$ 4,452,329	$ (6,866)	$ -	$ 17,334,203

	June 30, 2018	Additions	(Retirements)	Transfers	June 30, 2019
Capital Assets Not Being Depreciated					
Land	$ 89,562	$ -	$ -	$ -	$ 89,562
Construction in Progress	199,433	362,038	-	(38,838)	522,633
Total Capital Assets Not Being Depreciated	288,995	362,038	-	(38,838)	612,195
Capital Assets Being Depreciated					
Land Improvements	500,206	6,000	(1,220)	-	504,986
Building	12,045,075	55,392	(14,709)	226	12,085,984
Fixed Equipment	10,368,783	-	-	-	10,368,783
Major Movable Equipment	11,414,970	774,994	(646,048)	38,612	11,582,528
Total Capital Assets Being Depreciated	34,329,034	836,386	(661,977)	38,838	34,542,281
Accumulated Depreciation:					
Land Improvements	402,363	9,983	(1,221)	-	411,125
Building	6,591,996	523,047	(14,709)	-	7,100,334
Fixed Equipment	5,069,317	560,819	-	-	5,630,136
Major Movable Equipment	8,920,122	850,066	(646,047)	-	9,124,141
Total Accumulated Depreciation	20,983,798	1,943,915	(661,977)	-	22,265,736
Total Capital Assets Being Depreciated, Net	13,345,236	(1,107,529)	-	38,838	12,276,545
Total Capital Assets, Net	$ 13,634,231	$ (745,491)	$ -	$ -	$ 12,888,740

NOTE 8 CAPITAL ASSETS (CONTINUED)

Construction in progress at June 30, 2020 consists of costs related to a hospital renovation project, specifically renovations of the emergency department, surgical services department, and lab department. Total expected cost is approximately $8,433,000. consisted mainly of early stage design costs related to a hospital renovation project. Certain phases of the construction project, particularly the surgical services renovations, were capitalized during the year ended June 30, 2020 totaling approximately $4,100,000. Remaining construction in progress balances consist substantively of costs related to the emergency department renovations. Remaining phases of the project are anticipated to be completed in February 2021. The project is being financed through a combination of USDA debt, a commercial loan, a foundation capital contribution pledge campaign, and internal funds. The Health System issued new debt for the project June 28, 2019, to finance the project (see Note 10) and drew additional funds on this debt in fiscal year 2020.

NOTE 9 REAL ESTATE HELD FOR INVESTMENT

The real estate held for investment consists of 151 acres of farmland in Hancock County. At June 30, 2020 and 2019, the estimated market value was $927,535.

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt at June 30 is as follows:

	Balance June 30, 2019	Additions	(Payments)	Balance June 30, 2020	Amounts Due Within One Year
Capital Lease Obligations	$ 390,302	$ -	$ (89,393)	$ 300,909	$ 92,039
Hospital Revenue Bonds, Series 2010B	9,490,000	-	(700,000)	8,790,000	725,000
Series 2019A Loan Agreement	50,001	4,171,640	-	4,221,641	4,221,642
Series 2019B Loan Agreement	50,001	889,170	-	939,171	939,171
PPP Loan	-	1,995,000	-	1,995,000	936,557
Total Long-Term Debt	$ 9,980,304	$ 7,055,810	$ (789,393)	$ 16,246,721	$ 6,914,409

	Balance June 30, 2018	Additions	(Payments)	Balance June 30, 2019	Due Within One Year
Capital Lease Obligations	$ 17,267	$ 462,830	$ (89,795)	$ 390,302	$ 89,393
Hospital Revenue Bonds, Series 2010B	10,165,000	-	(675,000)	9,490,000	700,000
Series 2019A Loan Agreement	-	50,001	-	50,001	24,408
Series 2019B Loan Agreement	-	50,001	-	50,001	24,408
Total Long-Term Debt	$ 10,182,267	$ 562,832	$ (764,795)	$ 9,980,304	$ 838,209

Health System Revenue Bonds, Series 2010B

Health System Revenue Bonds, Series 2010B, (Recovery Zone Economic Development Bonds) require annual payments of principal and semi-annual payments of interest, with interest rates varying from 4.00% to 8.05%. One bond will mature each year, with maturity of the final bond in 2030. The bonds are collateralized by a pledge of the Health System's net revenues. The bonds are payable solely and only from revenues and receipts of the Health System and do not constitute an indebtedness of the County.

NOTE 10 LONG-TERM DEBT (CONTINUED)

Health System Revenue Bonds, Series 2010B (Continued)

In relation to the Health System Revenue Bonds, Series 2010B, the Health System has qualified for the Build America Bonds credit. These bonds are eligible for the rebate for the entire term of the bonds. The rebate credit equals 42% of the interest paid on the bonds. Build America Bonds Credits are reflected as other operating revenue in the statements of revenues, expenses, and changes in net position of $323,165 and $339,658 for the years ended June 30, 2020 and 2019, respectively.

Under the terms of the revenue bonds official statement, the Health System is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use or restricted. The revenue bonds official statement also requires that the Health System satisfy certain measures of financial performance as long as the bonds are outstanding.

Series 2019A Loan Agreement

The Health System issued interim Series 2019A Hospital Revenue Bond Anticipation Project Note during the year ended June 30, 2019 to help finance the construction project as discussed in Note 8. The Note is not to exceed $6,433,000 and matures June of 2021 with an interest rate of 4.75% that reset at June 28, 2020 at a rate equal to the Wall Street Journal Prime Rate minus .75%, which came to 2.75%. As of June 30, 2020, the Health System had drawn down $4,221,641 of the principal related to this debt. The Health System has a loan commitment from United States Department of Agriculture – Rural Development (USDA), to provide permanent financing upon completion of the project. The USDA loan is anticipated to have a 35-year term, with interest rate of 3.875%, or the current rate in effect at closing, if lower. The USDA debt will be subject to certain restrictive covenants and reserve requirements.

Series 2019B Loan Agreement

The Health System issued interim Hospital Revenue Bond Anticipation Note Series 2019B during the year ended June 30, 2019 to help finance the construction project as discussed in Note 8. The Series 2019B Note is not to exceed $1,000,000 and matures June of 2021 with an interest rate of 2.50%. As of June 30, 2020, the Health System had drawn down $939,171 of the principal related to this debt. The Health System has a loan commitment from multiple Cooperative groups to provide permanent financing upon completion of the project. The refinanced debt is expected to be a 10-year term with monthly principal payments and 0.00% interest rate.

Paycheck Protection Program (PPP) Loan

The Health System obtained financing from the Small Business Administration (SBA) Paycheck Protection Program (PPP) through First State Bank related to relief from the COVID-19 pandemic in the amount of $1,995,000 with a two-year term at an interest rate of 1.00% on April 22, 2020. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain criteria like maintaining full time equivalent employees. The amount of the loan forgiveness has yet to be determined. The liability will remain until the lender formally issues the forgiveness decision on the amounts, if any, that will be forgiven.

NOTE 10 LONG-TERM DEBT (CONTINUED)

Capital Lease Obligations

Capitalized lease obligations consist of two lease agreements. The first agreement was entered into at the beginning of fiscal year 2014 and requires monthly payments of principal and interest, with interest at the rate of 4.34%. Principal and interest payments were due through September 2018 and were disposed of during the year ended June 30, 2020. The Health System entered into a new lease during the year ended June 30, 2018, and requires monthly payments of principal and interest, with a rate of 4.34%. Principal and interest payments began September of 2018 and will continue through August of 2023.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

	Long-Term Debt		Capital Lease Obligations	
Year Ending June 30,	Principal	Interest	Principal	Interest
2021	$ 6,822,370	$ 866,477	$ 92,039	$ 7,993
2022	1,813,442	670,435	94,763	5,269
2023	785,000	609,628	97,567	2,465
2024	815,000	550,360	16,540	132
2025	850,000	487,605	-	-
2026-2030	4,860,000	1,570,155	-	-
Total	$ 15,945,812	$ 4,754,660	$ 300,909	$ 15,859

NOTE 11 LEASES

The Health System leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2020 and 2019 for all operating leases was $76,383 and $92,745, respectively. The capitalized leased assets consist of:

	2020	2019
Major Movable Equipment	$ 462,830	$ 462,830
Less: Accumulated Amortization (Included as Depreciation on the Accompanying Financial Statements)	(169,571)	(76,801)
Total	$ 293,259	$ 386,029

NOTE 12 PENSION AND RETIREMENT BENEFITS

Plan Description

IPERS membership is mandatory for employees of the Health System, except for those covered by another retirement system. Employees of the Health System are provided with pensions through a cost sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Plan Description (Continued)

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier based on years of service.
- The member's highest five-year average salary. For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for serviced earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate to be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability based on a 30-year amortization period. The payment to amortize the unfunded actuarial is determined as a level percentage of your payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Health System contributed 9.44% of covered payroll for a total rate of 15.73%.

The Health System's contributions to IPERS for the years ended June 30, 2020 and 2019 were $815,342 and $790,811, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2020 and 2019, the Health System reported a liability of $6,329,004 and $6,708,551, respectively, for its proportionate share of the net pension liability. The Health System net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health System's proportion of the net pension liability was based on the Health System's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2019, the Health System's collective proportion was .108567% which was an increase of .002524% from its proportion measured as of June 30, 2018.

For the years ended June 30, 2020 and 2019, the Health System recognized pension expense of $1,318,741 and $1,111,169, respectively. At June 30, 2020 and 2019, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

June 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 17,547	$ 227,557
Changes of Assumptions	677,922	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	713,198
Changes in Proportion and Differences Between Health System Contributions and Proportionate Share of Contributions	329,423	159,878
Health System Contributions Subsequent to the Measurement Date	815,342	-
Total	$ 1,840,234	$ 1,100,633

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 36,782	$ 151,624
Changes of Assumptions	957,018	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	184,331
Changes in Proportion and Differences Between Health System Contributions and Proportionate Share of Contributions	402,824	229,386
Health System Contributions Subsequent to the Measurement Date	790,811	-
Total	$ 2,187,435	$ 565,341

As of June 30, 2020 and 2019, the Health System reported $815,342 and $790,811, respectively, as deferred outflows of resources related to pensions resulting from Health System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	2020 Amount	2019 Amount
2020	$ -	581,921
2021	209,991	286,756
2022	(141,379)	(57,896)
2023	(67,284)	15,095
2024	(77,144)	5,407
2025	75	-
Total	$ (75,741)	$ 831,283

There were no nonemployer contributing entities to IPERS.

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation (Effective June 30, 2017)	2.60% Annum
Rates of Salary Increase (Effective June 30, 2017)	3.25% to 16.25%, Average Including Inflation Rates Vary by Membership Group
Long-Term Investment Rate of Return (Effective June 30, 2017)	7.00% Compound Annually, Net of Investment Expense, Including Inflation
Wage Growth (Effective June 30, 2017)	3.25% per annum based on a 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience study dated March 24, 2017 and a demographic assumption dated June 28, 2018.

Morality rates used in the 2019 valuations were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return be weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	22.0 %	5.60 %
International Equity	15.0	6.08
Global Smart Beta Equity	3.0	5.82
Core Plus Fixed Income	27.0	1.71
Public Credit	3.5	3.32
Public Real Assets	7.0	2.81
Cash	1.0	(0.21)
Private Equity	11.0	10.13
Private Real Assets	7.5	4.76
Private Credit	3.0	3.01
Total	100 %	

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Health System will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Health System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Health System's proportionate share of the net pension liability as of June 30, 2020 and 2019, calculated using the discount rate of 7.00%, as well as what the Health System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

June 30, 2020	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Health System's Proportionate Share of the Net Pension Liability	$ 11,238,268	$ 6,329,004	$ 2,211,167

June 30, 2019	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Health System's Proportionate Share of the Net Pension Liability	$ 11,385,808	$ 6,708,551	$ 2,785,081

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2020 and 2019, the Health System reported payables to the defined benefit pension plan of $62,607 and $55,469, respectively, for legally required employer contributions and employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 13 RELATED ORGANIZATIONS

Master Affiliation Agreement

The Health System entered into a Master Affiliation Agreement with Mercy Health Network dba MercyOne (MHN) to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region under the name of Hancock County Health System. As a part of the Master Affiliation Agreement, the Health System entered into a professional services agreement with MHN whereby MHN provides professional medical services and other services. Amounts paid to MHN for the provision of these services amounted to $2,137,828 and $1,744,992 for the years ended June 30, 2020 and 2019, respectively.

The Health System entered into a contractual arrangement with MHN under which MHN provides administrative staff, management consultation, and other services to the Health System. The arrangement does not alter the authority or responsibility of the board of trustees of the Health System. Expenses for the administrative and management services received for the years ended June 30, 2020 and 2019 were $868,434 and $853,243, respectively.

Due to Affiliated Organization

As of June 30, 2020 and 2019, Hancock County Health System's records reflect a due to MHN of $181,268 and $201,940, respectively, for the various services and distributions related to these agreements.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Health System has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigations, Claims, and Other Disputes

The Health System is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will be resolved without material adverse effects to the Health System's financial position or results of operations.

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NOTE 15 DEFERRED COMPENSATION AGREEMENTS

The Health System has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specific dates. The Health System does not make any contributions under the agreements. The agreements indicate the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provision of the IRC Section 457 was amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Health System. Under Governmental Accounting Standards plan assets are held in a trust for plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was $1,085,551 and $1,043,652 at June 30, 2020 and 2019, respectively.

NOTE 16 RISK MANAGEMENT

The Health System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 17 CONCENTRATION OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30 was as follows:

	2020	2019
Medicare	37 %	36 %
Medicaid	21	18
Commercial Insurance and Other Third-Party Payors	25	30
Self-Pay	17	16
Total	100 %	100 %

NOTE 18 FAIR VALUE MEASUREMENTS

To the extent available, the Health System's investments are recorded at fair value. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

NOTE 18 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Health System measured at fair value on a recurring basis as of June 30:

	2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 115,170	$ -	$ -	$ 115,170
Equities	202,672	-	-	202,672
Land Held for Investment	-	-	927,535	927,535
Total	$ 317,842	$ -	$ 927,535	$ 1,245,377

	2019			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 95,205	$ -	$ -	$ 95,205
Equities	223,341	-	-	223,341
Land Held for Investment	-	-	927,535	927,535
Total	$ 318,546	$ -	$ 927,535	$ 1,246,081

The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses, during the years ended June 30, 2020 and 2019 were classified as follows in the statements of revenues, expenses, and changes in net position:

	2020	2019
Balance - Beginning of Year	$ 927,535	$ 927,535
Unrealized Gain (Loss) in Investment	-	-
Balance - End of Year	$ 927,535	$ 927,535

NOTE 19 COVID-19 PANDEMIC IMPACTS

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Health System, COVID-19 may impact various parts of its fiscal year 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Health System is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of June 30, 2020.

NOTE 19 COVID-19 PANDEMIC IMPACTS (CONTINUED)

As part of the Health System's response to the COVID-19 pandemic, it received payments from the CARES Act Provider Relief Fund (PRF), which is administered by the U.S. Department of Health and Human Services (HHS). The Health System received Provider Relief Funds in the amount of $4,220,787, made up of $607,165 from the General Distribution and $3,613,622 from Targeted Distributions for Rural Providers. The PRF payments are subject to terms and conditions and can generally be used to prevent, prepare for, and respond to coronavirus through reimbursement of health care related expenses or lost revenues attributable to coronavirus. The PRF funds are also subject to certain reporting and audit requirements. Subsequent to year-end, HHS released detailed reporting guidance related to the PRF, which the Health System has taken into consideration when recognizing revenue related to the PRF. Reporting includes required data elements around eligible expenses, lost revenue, and other data points through calendar year ended December 31, 2020, with a deadline of February 15, 2021. The Health System has not recognized any revenue for eligible expenses or lost revenues attributable to coronavirus for the year ended June 30, 2020. PRF funds received but not recognized totaling $4,220,787 as of June 30, 2020 are presented as unearned grant revenue in the statement of net position. Due to the calendar year reporting and continued changes in guidance from HHS subsequent to year-end, management has deemed it appropriate to defer recognition of the PRF grant revenue until specific eligible expenses have been identified, and the calendar year lost revenue calculation can be determined.

HANCOCK COUNTY HEALTH SYSTEM
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS) (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget As Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 1,578,412	$ -	$ 1,578,412	$ 1,534,232	$ 44,180
Estimated Other Revenues/ Receipts	24,521,166	13,465,486	37,986,652	27,330,715	10,655,937
	26,099,578	13,465,486	39,565,064	28,864,947	10,700,117
Expenses/Disbursements	25,567,476	5,659,914	31,227,390	32,490,290	1,262,900
Net	532,102	7,805,572	8,337,674	(3,625,343)	9,437,217
Balance - Beginning of Year	17,090,385	(5,181,981)	11,908,404	18,596,231	(6,687,827)
Balance - End of Year	$ 17,622,487	$ 2,623,591	$ 20,246,078	$ 14,970,888	$ 2,749,390

HANCOCK COUNTY HEALTH SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

This budgetary comparison is presented as Required Supplementary Information in accordance with GASB Statement No. 41 for governments with significant budgetary perspective differences resulting from the Health System preparing a budget on the cash basis of accounting.

The board of trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health System on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The board of trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures, and there was one amendment for the year-ended June 30, 2020. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2020, the Health System's expenditures did not exceed the amount budgeted.

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF THE HEALTH SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2020 THROUGH 2015*
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018
Health System's Proportion of the Net Pension Liability	0.1085670%	0.1060430%	0.1029730%
Health System's Proportionate Share of the Net Pension Liability	$ 6,329,004	$ 6,708,551	$ 6,797,960
Health System's Covered Payroll	$ 9,156,098	$ 8,785,893	$ 8,223,616
Health System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	69.12%	76.36%	82.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.45%	83.62%	82.21%

	2017	2016	2015
Health System's Proportion of the Net Pension Liability	0.1099610%	0.1028690%	0.0971490%
Health System's Proportionate Share of the Net Pension Liability	$ 6,857,442	$ 5,114,076	$ 3,931,703
Health System's Covered Payroll	$ 7,842,378	$ 6,950,452	$ 6,919,478
Health System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	87.44%	73.58%	56.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.82%	85.19%	87.61%

*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF THE HEALTH SYSTEM'S CONTRIBUTIONS (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2020 THROUGH 2013*
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018	2017
Statutorily Required Contribution	$ 815,342	$ 790,811	$ 713,895	$ 680,569
Contributions in Relation to the Statutorily Required Contribution	815,342	790,811	713,895	680,569
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Health System Covered Payroll	$ 9,156,098	$ 8,785,893	$ 8,223,616	$ 7,842,378
Contributions as a Percentage of Covered Payroll (Regular)	9.44%	9.44%	8.93%	8.93%

	2016	2015	2014	2013
Statutorily Required Contribution	$ 665,280	$ 633,857	$ 506,358	$ 478,364
Contributions in Relation to the Statutorily Required Contribution	665,280	633,857	506,358	478,364
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Health System Covered Payroll	$ 7,746,436	$ 6,950,452	$ 6,919,478	$ 5,858,187
Contributions as a Percentage of Covered Payroll (Regular)	8.93%	8.93%	8.93%	8.68%

* GASB 68 requires 10 years of information to be presented in this table. However, until a full 10 years is compiled, the Health System will present information for those years for which information is available.

HANCOCK COUNTY HEALTH SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 PENSION LIABILITY

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of Assumptions

The 2018 valuation implemented the following refinements as a result of demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the unfunded actuarial liability (UAL) beginning June 30, 2016. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

NOTE 1 PENSION LIABILITY (CONTINUED)

Changes of Assumptions (Continued)

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Total	
	2020	2019
PATIENT CARE SERVICES		
Medical and Surgical	$ 2,783,578	$ 2,876,457
OTHER PROFESSIONAL SERVICES		
Operating Room	3,122,206	3,064,835
Recovery Room	530,482	538,892
Radiology	7,751,775	7,867,614
Nuclear Medicine	374,337	596,819
Laboratory	7,673,321	7,119,503
Respiratory Therapy	2,507,212	2,511,182
Physical Therapy	1,541,030	1,471,719
Occupational Therapy	447,802	320,537
Speech Therapy	321,313	341,483
Electrocardiology	411,168	459,681
Pharmacy	2,343,354	2,055,598
Cardiac Rehabilitation	253,321	338,777
Diabetic Education	7,047	10,521
Senior Life	1,251,890	1,238,896
Britt Aesthetics	55,479	157,433
Britt Clinic	2,996,349	3,329,284
Garner Clinic	3,831,486	3,646,052
Wesley Clinic	413,583	375,944
Kanawha Clinic	290,243	295,134
Emergency Services	4,403,727	4,401,634
Specialty Surgeon	827,511	693,090
Garner Rec Clinic - Physical Therapy	483,510	456,842
Home Health	593,669	691,715
Total	45,215,393	44,859,642
Charity Care	(67,302)	(107,197)
Patient Service Revenues	45,148,091	44,752,445
CONTRACTUAL ADJUSTMENTS		
Medicare	(11,355,925)	(11,623,660)
Medicaid	(3,516,466)	(3,456,735)
Other	(6,724,287)	(6,859,110)
Provision for Uncollectible Accounts	(1,129,401)	(1,002,977)
Total Deductions	(22,726,079)	(22,942,482)
Net Patient Service Revenues	$ 22,422,012	$ 21,809,963

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT SERVICE REVENUES (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Inpatient		Outpatient	
2020	2019	2020	2019
$ 2,217,676	$ 2,157,665	$ 565,902	$ 718,792
38,687	7,176	3,083,519	3,057,659
4,020	1,005	526,462	537,887
258,260	279,772	7,493,515	7,587,842
3,668	-	370,669	596,819
804,755	670,516	6,868,566	6,448,987
1,404,140	1,066,925	1,103,072	1,444,257
542,363	449,367	998,667	1,022,352
348,153	239,095	99,649	81,442
193,020	235,544	128,293	105,939
18,423	9,150	392,745	450,531
1,288,913	862,838	1,054,441	1,192,760
-	-	253,321	338,777
-	31	7,047	10,490
-	-	1,251,890	1,238,896
-	-	55,479	157,433
-	-	2,996,349	3,329,284
-	-	3,831,486	3,646,052
-	-	413,583	375,944
-	-	290,243	295,134
25,714	29,015	4,378,013	4,372,619
18,246	3,438	809,265	689,652
-	-	483,510	456,842
-	-	593,669	691,715
$ 7,166,038	$ 6,011,537	$38,049,355	$38,848,105

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019
OTHER OPERATING REVENUES		
Meals Sold	$ 88,117	$ 81,021
Electronic Health Records Incentive Award	-	51,022
Business Health	37,007	37,567
Build America Bonds Rebate Grant Revenue	323,165	339,658
340B Retail Pharmacy	692,281	684,399
Anesthesiology	258,168	163,509
Miscellaneous	409,395	362,600
Total Other Operating Revenues	$ 1,808,133	$ 1,719,776

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Total	
	2020	2019
Employee Benefits	$ 3,085,793	$ 2,819,021
Administrative and General	2,878,472	2,735,279
Operation of Plant	634,909	639,996
Laundry and Linen	37,893	32,473
Housekeeping	198,397	179,149
Dietary	365,454	338,622
Nursing Administration	110,278	112,854
Central Supply	41,490	75,041
Pharmacy	536,267	475,135
340B Retail Pharmacy	343,169	308,596
Medical Records	243,162	234,003
Social Service	80,870	65,664
Adults and Pediatrics	2,458,709	2,657,992
Operating and Recovery Rooms	490,443	544,650
Anesthesiology	414,018	354,352
Radiology	831,099	754,496
Nuclear Medicine	93,424	156,675
Laboratory	733,792	760,678
Blood	39,259	13,641
Respiratory Therapy	629,244	615,984
Physical Therapy	500,951	490,366
Occupational Therapy	115,337	110,420
Speech Pathology	109,228	129,284
Electrocardiology	15,218	17,489
Cardiac Rehabilitation	73,315	90,456
Britt Aesthetics	50,853	147,336
Senior Life	376,597	388,484
Britt Clinic	2,153,242	2,057,833
Garner Clinic	1,859,788	1,608,427
Wesley Clinic	218,544	225,166
Kanawha Clinic	237,669	254,761
Emergency Services	1,902,758	1,749,417
Patient Transportation	21,008	14,173
Specialty Surgeon	158,316	143,974
Garner Clinic - Rec	119,278	123,315
Home Health	482,025	527,125
Depreciation	1,892,759	1,943,915
Interest Expense and Amortization	769,961	812,548
Total	$ 25,302,989	$ 24,708,790

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Salaries		Other	
	2020	2019	2020	2019
Employee Benefits	$ -	$ -	$ 3,085,793	$ 2,819,021
Administrative and General	992,507	922,075	1,885,965	1,813,204
Operation of Plant	239,257	243,847	395,652	396,149
Laundry and Linen	2,187	3,197	35,706	29,276
Housekeeping	167,431	149,636	30,966	29,513
Dietary	259,902	241,280	105,552	97,342
Nursing Administration	110,278	112,629	-	225
Central Supply	86,878	89,414	(45,388)	(14,373)
Pharmacy	3,492	5,753	532,775	469,382
340B Retail Pharmacy	-	-	343,169	308,596
Medical Records	222,220	216,242	20,942	17,761
Social Service	80,870	65,649	-	15
Adults and Pediatrics	1,534,215	1,654,950	924,494	1,003,042
Operating and Recovery Rooms	235,126	221,292	255,317	323,358
Anesthesiology	397,402	338,115	16,616	16,237
Radiology	433,586	459,552	397,513	294,944
Nuclear Medicine	-	-	93,424	156,675
Laboratory	363,239	319,044	370,553	441,634
Blood	-	-	39,259	13,641
Respiratory Therapy	-	-	629,244	615,984
Physical Therapy	467,773	455,586	33,178	34,780
Occupational Therapy	97,081	40,248	18,256	70,172
Speech Pathology	-	-	109,228	129,284
Electrocardiology	35	279	15,183	17,210
Cardiac Rehabilitation	3,711	680	69,604	89,776
Britt Aesthetics	21,297	42,054	29,556	105,282
Senior Life	41,283	42,396	335,314	346,088
Britt Clinic	1,475,787	1,353,312	677,455	704,521
Garner Clinic	873,335	853,177	986,453	755,250
Wesley Clinic	128,380	146,659	90,164	78,507
Kanawha Clinic	134,173	141,555	103,496	113,206
Emergency Services	284,116	133,235	1,618,642	1,616,182
Patient Transportation	-	-	21,008	14,173
Specialty Surgeon	-	-	158,316	143,974
Garner Clinic - Rec	87,036	84,238	32,242	39,077
Home Health	413,501	449,799	68,524	77,326
Depreciation	-	-	1,892,759	1,943,915
Interest Expense and Amortization	-	-	769,961	812,548
Total	$ 9,156,098	$ 8,785,893	$ 16,146,891	$ 15,922,897

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Analysis of Aging	2020		2019	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 3,402,664	60 %	$ 3,748,463	57 %
31 to 60 Days	455,567	8	680,537	11
61 to 90 Days	201,865	3	449,574	7
91 Days and Over	1,707,818	30	1,659,230	25
Total	5,767,914	100 %	6,537,804	100 %
Less: Allowance for Doubtful Accounts	592,827		581,561	
Less: Allowance for Contractual Adjustments	2,379,626		2,491,685	
Net Patient Accounts Receivable	$ 2,795,461		$ 3,464,558	

Analysis of Allowance for Doubtful Accounts
Years Ended June 30, 2020 and 2019

	2020		2019	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	$ 581,561		$ 442,682	
Add:				
Provision for Uncollectible Accounts	1,129,401	5.04 %	1,002,977	4.60 %
Recoveries Previously Written Off	414,626	1.85	354,177	1.62
Total	1,544,027		1,357,154	
Deduct:				
Accounts Written Off	(1,532,761)	(6.84)	(1,218,275)	(5.59)
Ending Balance	$ 592,827		$ 581,561	

Collection Statistics

Net Accounts Receivable - Patients	$ 2,795,461
Number of Days Charges Outstanding	46
Uncollectible Accounts (1)	$ 1,196,703
Percentage of Uncollectible Accounts to Total Charges	2.65%

(1) Includes Provision for Uncollectible Accounts, Charity Care, and Collection Fees

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019
INVENTORIES		
General	$ 56,201	$ 54,247
Pharmacy	135,862	139,776
Central Supply	151,961	105,831
Total Inventories	$ 344,024	$ 299,854
PREPAID EXPENSES		
Insurance	$ 26,756	$ 12,239
Service Contracts/Other	46,282	168,206
Membership Dues	23,868	19,949
Total Prepaid Expenses	$ 96,906	$ 200,394

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019
Patient Days		
Acute (Includes Hospice)	473	612
Swing-Bed*	2,268	1,929
Total	2,741	2,541
Admissions		
Acute (Includes Hospice)	144	187
Swing-Bed*	184	158
Total	328	345
Discharges		
Acute (Includes Hospice)	145	191
Swing-Bed*	188	170
Total	333	361
Average Length of Stay		
Acute (Includes Hospice)	3.3	3.2
Swing-Bed*	12.1	11.3
All Patients	8.2	7.0
Beds	25	25
Percentage of Occupancy		
Acute (Includes Hospice), Based on 15 Beds	8.64%	11.18%
Swing-Bed, Based on 10 Beds	62.14%	52.85%
All Patients, Based on 25 Beds	30.04%	27.85%
Outpatient Visits	20,149	22,074
Physician Clinic Visits		
Britt	10,615	12,069
Garner	9,846	9,366
Kanawha	934	1,025
Wesley	1,296	1,303
Total	22,691	23,763

* Includes swing-bed and swing-bed self-pay patients

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Hancock County Health System
Britt, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hancock County Health System (Health System) which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the notes to the financial statements and have issued our report thereon dated January 18, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Health System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Hancock County Health System are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health System's operations for the year ended June 30, 2020, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health System and are reported in Part II of the accompanying schedule of findings and responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Health System's Response to Finding

The Health System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Health System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
January 18, 2021

HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

Part I: Findings Related to Financial Reporting:

2020-001 Proposed Audit Adjustments

Criteria: The Health System must be able to prevent or detect a misstatement in the annual financial statements.

Condition: A misstatement of the Health System financial statements was identified in the audit process and had not been identified through the standard financial close procedures.

Cause: The Health System relied on the audit firm to propose audit adjustments to reconcile various accounts at year-end. All proposed audit adjustments are approved by management.

Effect: A misstatement of the financial statements could occur.

Recommendation: We recommend that the Health System accounting personnel review final account balances and consult with auditors throughout the year regarding accounts and adjustments as needed.

Response: Management will consult with the audit firm as needed during the year in order to adjust accounts to appropriately reconcile.

Conclusion: Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-20 **Certified Budget** – Disbursements during the year ended June 30, 2020 did not exceed the amended amount budgeted. Noted amendment to budget was approved after the May 31st deadline, but prior to June 30th and was not protested.

II-B-20 **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-20 **Travel Expense** – No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.

II-D-20 **Business Transactions** – We noted no material business transactions between the Health System and Health System officials and/or employees.

II-E-20 **Board Minutes** – No transactions were found that we believe should have been approved in the board minutes but were not.

II-F-20 **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health System's investment policy were noted.

II-G-20 **Publication of Bills Allowed and Salaries** – Chapter 347.13(11) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category." The Health System published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.